

TODAY

Coming Back From the Brink of Disaster Not Without its Lessons

MARCH 1993

"I was going through hell, but I always said to myself, 'it's not over 'til it's over'."

Fierce determination enabled Thomas Goszczynski to drag himself out from under and pull out all stops to save his successful Calgary-based business from failing.

His 10-year-old company ran into serious trouble when he expanded it to keep up with growing demand. Almost too late, he realized that bigger is not necessarily better....

Ever since it began operations in 1983, GT Auto Body & Paint European Specialists attracted an immediate following. Customers and insurance appraisers alike were impressed with its superior workmanship, waiting as long as six months for repairs.

"All those years I really, really stressed the highest possible quality on the cars I was fixing. It started to pay off and I started to get more and more business," says Goszczynski.

He enhanced his operations in 1985 by purchasing more sophisticated equipment and relocating to larger premises. Activity became so brisk that by 1988, Goszczynski doubled his staff and leased an extra work bay 1 1/2 blocks from his shop to be used specifically for body and framework.

"Theoretically, everything was great, but we quickly realized that with a staff of 14 or 15 it was difficult to control quality," he notes.

"Even though the business was there, the cost of maintaining the quality of the repairs was enormous. We had to redo many jobs before I could release them — the cost was major. That was the start of our problems. I could have allowed the quality to decline, and save money but I couldn't do that."

After a year, Goszczynski realized he could no longer afford to function that way and took action to scale down operations. His decision was a costly one, with excess equipment sold at bargain basement prices and a lease maintained on unused rental space.

"I was still paying huge overhead. It was a terrible situation — I almost failed," he says.

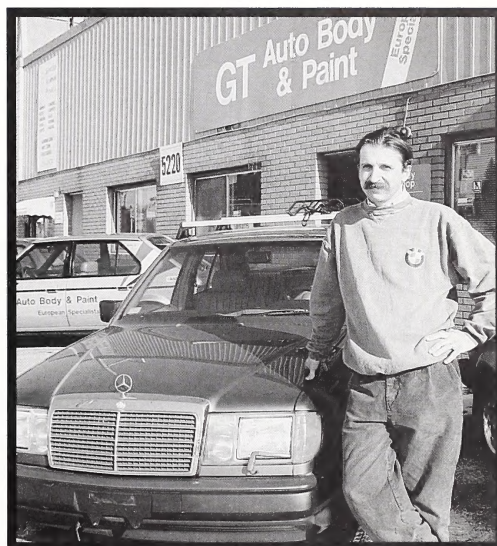
Despite his track record and commitment to turn things around, Goszczynski had little luck in finding financing to improve his cash flow. Refusing to give up, he approached Alberta Opportunity Company and obtained the funds he needed.

"Thank God I did it because without AOC, I don't think I'd have been able to survive."

These days, Goszczynski is concentrating on reducing his debt load and using his past experience to more effectively run his business.

"When I expanded I thought having volume would generate profit but I've learned that's not necessarily so. The most important thing is efficiency. I learned that the hard way.

"It's absolutely necessary in business to count and depend on other people but I've learned to



Thomas Goszczynski: Depending more on himself.

depend more on myself, and not to overestimate the things people can do for you."

Once a definite "no", the idea of expanding again now holds some appeal for Goszczynski — he'd just tackle it differently by ensuring he had qualified staff in place, first.

"Right now, though, I've still got room to improve things where I'm at. Let's improve and get the maximum out of what we've got now," he says, all the wiser from his near brush with failure.

"We always have to keep in mind that a job is not done until it's really done. We have to keep it in proper perspective. Don't quit and don't get too depressed, but don't get too optimistic and overjoyed with success because things don't always turn out the way we expect them to."

Shrewd Management Helps Printing Company Blot Out Red Ink

When Ed and Victoria Rosenke left for a Hawaiian vacation in mid-February it signified more than an opportunity for some well-deserved rest and relaxation.

It also meant their Edmonton-based printing business was back on track after an intense two-year crusade to improve its bottom line.

"We never had a downturn in sales," explains Victoria.

"It's just that we had such huge write-offs."

Spiralling industry costs, coupled with fierce competition in the '80s caught up to 22-year-old Don-Rite Printing in 1991, leaving its owners with little choice but to take action.

"We took a close look at the financial statement that year and decided something had to be done," says Ed.

That "something" involved a thorough review of the company's performance over the past four years, followed by dozens of tough decisions related to all aspects of the business. Along with pulling in the reins on receivables, the owners also scrutinized the role of each and every employee and recognized downsizing was essential.

Altogether, six out of 22 employees left Don-Rite over the next four months. Ed admits their's was a harsh stance to adopt, but points out there were no other alternatives.

"The wound was open. It was quite obvious a band-aid solution would not have

worked. We cleaned house and got rid of the dead wood," he says.

"I think one of the weaknesses of any system that goes down usually stems from the management of the company because they end up not having an active role in all areas of the day-to-day operations of the business.

"Unfortunately, we had key people in key areas who weren't doing their jobs... controls weren't being followed."

By ensuring every employee and piece of machinery was accountable and cutting back on frills, they were able to whittle down overhead, but still needed financing to help improve their company's overall picture. Their efforts to strengthen their business still left them unable to obtain bank financing.

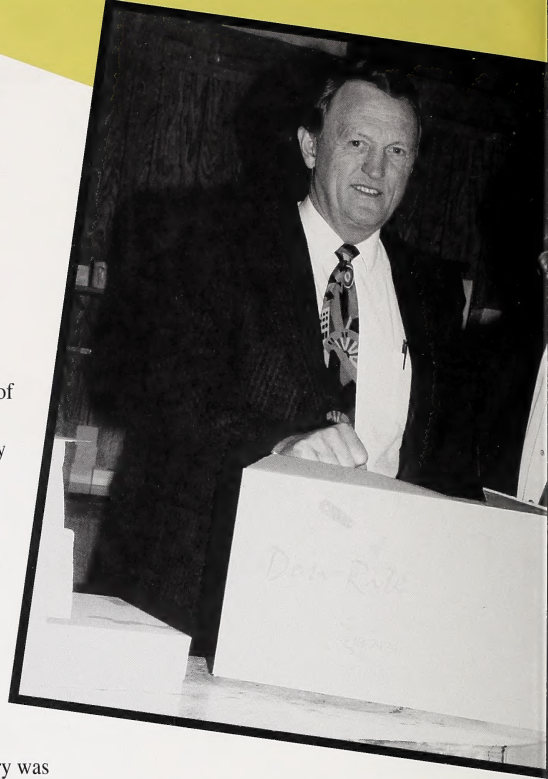
"Normal lending institutions simply look at your statements once a year. They don't look at your day-to-day

operations or the value of your equipment," says Ed.

Since the turnaround was initiated, he says Don-Rite's operations are as different as "night and day."

"We've got full controls in each and every area now. We've got control of our financial situation which certainly helps us concentrate on other things such as more market areas. We're doing much, much better."

Despite troublesome decisions that had to be made, Victoria stresses the campaign to



improve the business's bottom line was not without its rewards.

"When you come to work and somebody has an idea of how to make money for your company, although they're

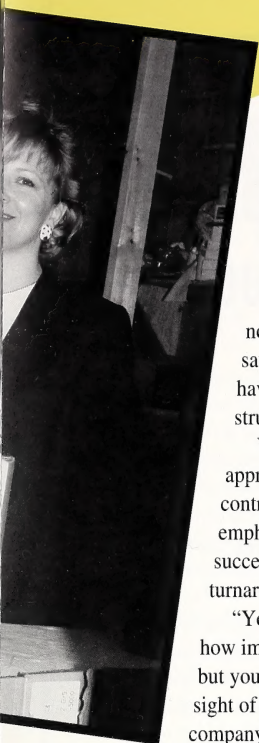
"You have to recognize how important everybody is, but you also have to keep sight of the fact that the company is the most important thing...."

Insolvent But Via

Gerald W. O'Brien, LLB, C.A.
Kurt P. Bonokoski, C.A.
Price Waterhouse - Calgary

When businesses fail, it's usually not without warning. The primary reason for most failures is that management is unable to detect danger signals that often mean the beginning of the end.

If weaknesses are recognized soon enough and acted upon immediately, it's possible to revitalize your business and turn things around. Open your eyes now — before it's too late — take a long, hard look at your business and factors that may have a role in its performance. Actions taken today may prevent tomorrow's downfall.



Back on track: Ed and Victoria Rosenke

not obliged to, it just says the last three years have been worth the struggle," she says.

While she is appreciative of employee contributions, she emphasizes the key to a successful business turnaround is objectivity.

"You have to recognize how important everybody is, but you also have to keep sight of the fact that the company is the most important thing. You have to

make painful decisions, but it's short-term pain for long-term gain. For us, it had to happen."

Listen to Market, AOC Board Member Advises

Sitting in Ron Bell's 34th-floor downtown Edmonton office, you can't help but feel far removed from the ups and downs of small business.

But when it comes down to it, the AOC board member and Vice President of Marketing and Development for Maclab Enterprises has experienced his share of private enterprise turbulence just like any other entrepreneur.

As the key figure responsible for marketing some 5,500 apartment suites scattered from Fort McMurray to Victoria, Bell constantly faces the challenge of coping with fluctuating demands and changing conditions. He's accustomed to taking stock of circumstances and acting quickly to put things back on track.

"You have to be listening to the market, you have to sense where things are going down," he says.

"If you're sitting in your office everyday you can probably miss what's really going on.



"You need vision and you have to communicate that to everyone involved in the project."

You've got to talk to your managers and your customers."

These days, high vacancy rates for rental housing have had an impact at the property management and development company

e — Turning Your Business Around

Danger Signals

External factors such as high interest rates, legislative changes and market fluctuations are generally beyond your control, but will affect your business. Internal signals such as under-capitalization, a history of losses, lack of current financial information and poor management can also mean trouble, but they are within your power to change.

If you've identified one or more of these danger signals, you must ask yourself the following:

- Is your business solvent?
- Is it viable?

Your answer to these questions will generally determine the required course of action.

Answer

1. Solvent and viable.
2. Solvent but not viable.
3. Insolvent and not viable.
4. Insolvent but viable.

Action

- Reorganization, sale of unproductive assets and non-profitable businesses.
- Sale of business or statutory liquidation.
- Receivership or bankruptcy.
- Reorganization, sale of unproductive assets and non-profitable businesses, and debt restructuring.

The final scenario, insolvent but viable, is the most challenging and requires the most attention to achieve maximum return to creditors and shareholders alike. At this stage, a business assessment must be undertaken, preferably by a

qualified professional. This will help determine if the original conclusions regarding the troubled business are correct, if formal proceedings can be avoided, and if alternative strategies are available.

Such analysis provides shareholders and

Distressed About Your Business?

Maybe We Can Help!

At AOC, we know that it takes more than money to ensure the success of a business. It also takes strong management.

Even if you've got a firm grip on your operations, sometimes a minor change in your accounting or marketing can make all the difference in the world. It's all a matter of receiving and acting on good, sound advice.

If you're an AOC client seeking some solid business advice, we may be able to help! Our Consulting Services division has experts who are prepared to provide you with guidance on everything from bookkeeping, to computerization, to inventory management.

Analyze your business. And consider any areas that could use strengthening to improve your bottom line. If you think you could benefit from our knowledge, call our Consulting Services division at 1-800-662-7153. Maybe we can help!

Ron Bell

where Bell has worked for eight years.

"What we're doing in this market, is we're managing better. In everything we do, we're just saying we need to do better," explains Bell.

He admits that's not always all it takes to beef up business, with more drastic measures sometimes the only realistic solution.

"It's a tough decision to make. You have to say, 'have I tried everything possible to make this work?' If the market is not there and there's not one in the foreseeable future, then you make changes. Then it's exciting . . . there's pain, but

there's also the rewards and the thrill of creating something new."

In embarking on a turnaround, Bell says

it's essential to have a clear idea of what it is you're trying to achieve.

"You need vision and you have to communicate that to everyone involved in the project."

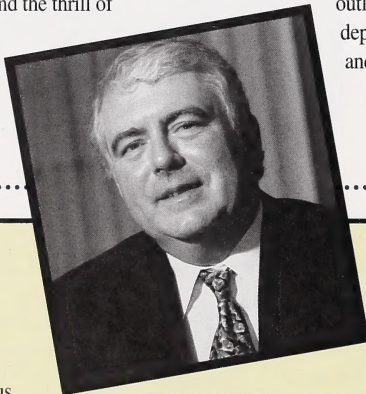
As well, you've got to be willing to pull out all stops, and take whatever action is necessary to transform your business.

"You're starting fresh. You may need new capital, you may need new systems, you may need new employees, you may need more training programs. It's like starting a whole new business," he explains.

Maclab Enterprises did just that when it implemented radical changes to successfully convert two Edmonton apartment buildings into hotels catering to business travellers.

"There's no formula," stresses Bell.

"There's basic things you have to do, but how you operate within that outline and how fast you get there depends on your vision, tenacity and drive."



Gerald O'Brien

creditors with an independent opinion of the company's status and helps pinpoint a course of action. The conclusions should be mutually beneficial to all parties, and in some cases it may be decided that it is in their best interests to minimize losses by winding up the business.

If restructuring is recommended, the assessment will provide the beginnings of a road map for turning your business around. The success of this plan will require the total cooperation and buy-in of creditors, shareholders and management. Each must recognize there will be pain involved that must be shared by all. In a book entitled 'Downsizing', R.M. Tomasko identifies four principles which characterize his

approach to streamlining companies. These rules are equally applicable to turnaround strategies.

● Build, don't destroy.

Avoid cost cutting just for the sake of doing it. Let successful operations continue to operate.

● Use a scalpel, not a meat cleaver.

Separate critical and profitable businesses and assets from unproductive ones and mould them into an efficient new organization.

● Keep the solution from becoming worse than the problem.

Make the business lean and efficient. In doing so, make staff cutbacks humane and

effective while ensuring employees critical to the survival of the restructured business do not leave.

● Stay lean.

Implement a "stay lean" philosophy for the future and reward employees accordingly to prevent the business from returning to its old ways.

The successful development and implementation of a turnaround strategy is a rewarding experience for creditors, shareholders, management and professional advisors alike. After all, it's much more satisfying to be the saviour and builder of dreams, lives, employment and capital, than being the undertaker.



Call us . . .

AOC Today was created to meet your information needs. If there's a business issue you want to see addressed, facts you need to know or a story you'd like us to share, call us! We've got an edition of 'Creating the Service Culture' for the best suggestion we receive.

We also want to help you in your entrepreneurial endeavours. If you're looking for business partners, seeking an investment opportunity or trying to sell your own operation, call us! We'll make an effort to pass your needs onto our readership.

Contact

Debbie Hunchak, Editor
AOC Today

Alberta Opportunity Company
1275 Weber Centre
5555 Calgary Trail
Edmonton, Alberta
T6H 5P9
1-800-661-3811

AOC Today is published 12 times annually by AOC's Corporate Marketing Division.

Balan Mathews,
Executive Director
Corporate Marketing

Design: Linda Blanchett



Shop Talk ...

AOC clients Stan and Bonnie Kornicki of the Bread Basket bakery in Lamont recently updated Commercial Credit Officer Gerald Iverson on the progress of their business. Personal visits are all part of the hands-on approach taken by AOC to help ensure individual needs are being met.

Welcome Aboard!

We're proud to welcome the following companies to the AOC family:

A & R Oilfield Services Ltd., Consort
Black Wolf Billiards Inc., Calgary
Lazy J Saloon Inc., Sundre
Platform Systems Inc., Calgary
Peak Manufacturing Ltd., Medicine Hat
Phil's Towing Service, Medicine Hat
Rock Creek Oilfield Maintenance Ltd., High Prairie
Vermilion Community TV 1992 Ltd., Vermilion

Letters ...

I recently received a copy of your AOC Today newsletter and generally found it to be most interesting. However, one article really disappointed me. This was the piece on incorporating your business, (January 1993) entitled "Thinking of Becoming Your Own Boss? Cover Your Backside!"

I was frankly shocked by the attitude expressed and the lack of professional and moral ethics implied. The article basically told you how to stick other people with the fruits of your failures and why it is good to do so. Phrases like "bulletproof your assets", "... obligations can be escaped", and "minimize personal responsibility" reflect the attitude that you should transfer responsibility for your bad fortune (or mistakes) to employees, suppliers, landlords, creditors, etc. Who cares about their problems? Are they all so rich that they can absorb your costs? I doubt it. In rural Alberta these are the friends and neighbors that have put their faith and trust in you. If your attitude is to slink off completely unharmed the minute the going gets tough, leaving the others to clean up your mess, then you betray the pioneering spirit that built Alberta.

My disappointment with the article is compounded by the fact that it is in a government publication. Much of the financial problem facing our province is the result of people transferring their fiscal woes to the province, leaving average Albertans to pick up the pieces (and the cost). I hope that AOC doesn't lend on the basis that loan applicants think of protecting themselves first and their business second.

Vincent Miles,
Edmonton

Editor's note:

The intention of the article was not to encourage illegal, immoral or unethical activities. Rather, it was our goal to advise entrepreneurs to protect their personal and family property — not their business assets — by incorporating to keep the two separate.

Creditors who deal with your business are entitled to protect themselves, and usually do so. That doesn't mean that small business owners shouldn't do the same for themselves and their families by all legal means.

Jim Anderson talks about why Alberta Opportunity Company might be able to turn things around, when others have turned your business financing proposal down.



“No. We're not miracle workers.

“What we *are*, is Alberta Opportunity Company —
an *alternate source of financing*
for small business.

“In other words, we provide loans
to entrepreneurs who have great ideas,
but for various reasons,
are unable to borrow from traditional institutions.

“Like banks, we too have standards.
But we're also willing to take a closer look at what *you* have to offer.

“If you've got what it takes,
we've got financing that can be applied towards launching,
purchasing, or expanding a business.

“So don't let being turned down turn you off.
Set your course in our direction.
And come talk to us.

“We *can't* part the Red Sea.

“But maybe we *can* help turn things around.”

Jim Anderson
President & CEO

Alberta Opportunity Company
5110 - 49 Avenue P.O. Box 4040
Ponoka, Alberta T4J 1R5

1-800-661-3811

